

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 57th LEGISLATURE - REGULAR SESSION JOINT APPROPRIATIONS SUBCOMMITTEE ON NATURAL RESOURCES AND COMMERCE

Call to Order: By **VICE CHAIRMAN CRISMORE**, on February 9, 2001 at 8:30 A.M., in Room 317-C Capitol.

ROLL CALL

Members Present:

Rep. Dick Haines, Chairman (R)
Sen. William Crismore, Vice Chairman (R)
Rep. Christine Kaufmann (D)
Sen. Linda Nelson (D)
Sen. Bill Tash (R)
Rep. Joe Tropila (D)

Members Excused: None.

Members Absent: None.

Staff Present: Becky Beckert-Graham, OBPP
Amber Sauer, Committee Secretary
Doug Schmitz, OBPP
Todd Younkin, Legislative Branch

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:

Hearing(s) & Date(s) Posted: Department of Commerce,
Montana Promotion Division,
Economic Development Division
Executive Action: Department of Commerce:
Travel Montana; and Economic
Development Division

HEARING ON MONTANA PROMOTION DIVISION

{Tape : 1; Side : A; Approx. Time Counter : 1.8 - 29.7}

Matthew Cohn, Administrator of the Travel Montana Program of the Department of Commerce, introduced his assistant **Anna Marie Moe**. He commented that there are many issues regarding the bed tax,

but he would like to focus on the challenge of marketing Montana. **Ms. Moe** distributed information to the Committee: an overview of the challenges and opportunities of marketing **EXHIBIT(jnh33a01)**; a brochure on Lewis and Clark **EXHIBIT(jnh33a02)**; the Montana Vacation Guide **EXHIBIT(jnh33a03)**; a report on the Montana tourism industry **EXHIBIT(jnh33a04)**; a chart showing how travel funds are spent **EXHIBIT(jnh33a05)** and another showing nonresident travel expenditures in Montana **EXHIBIT(jnh33a06)**; and information on Montana's Tourism Infrastructure Investment Program (TIIP) **EXHIBIT(jnh33a07)**, Native American tourism **EXHIBIT(jnh33a08)**, and the community tourism assessment program **EXHIBIT(jnh33a09)**.

Mr. Cohn presented his overview of the Montana tourism industry **EXHIBIT (1)**. In 1987, one of the solutions to get the economy moving was institution of the 4% lodging and facility use tax. Before 1987 and without marketing, nonresident visitation in Montana hovered between 4.5 and 5 million people over a 20 year period. Since that time the nonresident visitation has risen to about 9.5 million, a growth of about 4 million. The goal is to maintain 1% to 3% growth in the tourism industry.

Mr. Cohn reviewed Montana's standings regarding the tourism budget, marketing dollars, and media costs. Tourism is the second largest sector of the Montana economy, bringing in \$1.6 billion per year. He went over the image study done in 2000, by which it was determined that those who had heard about what Montana has to offer were favorably disposed to it. The internet has changed Travel Montana. Consumers are using the website, however, as internet use has gone up, the number of calls has gone down. Montana has a toll-free number to field consumer inquiries, and the Travel Program still advertises that number, but consumers seem to want to obtain information electronically.

Mr. Cohn went over the costs and savings of fielding queries by internet rather than telephone. The internet has costs, but posting information on the website allows for reductions in the size and volume of printing brochures to advertise Montana. The vacation guide and other brochures reference the website for more information to encourage people to seek information there. There has been a dramatic increase in the numbers of people that obtain information from the website, which has caused a change in the advertising mix. They are spending 14% more on internet advertising than in 1997.

Mr. Cohn reviewed last summer's fire season and the impact that it had on Montana's tourism industry. The state combated the pervasive media attention, which focused on the fires and destruction, with television advertisements that informed about the facts of the fire: that only 1% of Montana was on fire and

that there were many other areas with things to see and do. In one week they had spent their total media budget. As a result, they countered the bad news, through the website. He reviewed the information that they had presented on the site to persuade people that Montana was still worth a visit. During the fires, the web usage went up by 2.5 times. In 2000, from the statewide perspective, tourism went down only 0.6%.

Travel Montana anticipates big opportunities due to retiring baby boomers and globalization. As the standard of living increases worldwide, more and more people will be able to travel to Montana. In order to adapt programs to meet the needs of those who travel to Montana and their constituents, **Mr. Cohn** proposed that they will need to: increase electronic capabilities; redesign publications; refocus the media mix; remain competitive in the marketplace; address the tourism infrastructure needs; maintain a stable funding source; and broaden the message and appeal. He then went over his projections for the future of Travel Montana, if trends continue, and touched on the bed tax issue, infrastructure, land access issues, and the balance of economic development and quality of life.

{Tape : 1; Side : A; Approx. Time Counter : 29.7 - 34.2}

Mr. Younkin directed the Committee to the bed tax issue, starting on page 203 of the budget analysis. He explained that the bed tax is statutorily appropriated to the Department and as such the Committee will not be voting today to approve a budget for the Travel Montana program. There are ten bills or bill drafts that touch on the bed tax during this session. There are many different ideas about what could or should be done with the bed tax. There is one decision package (DP) at the end, which will increase state revenue to allow them to accept private money to do cooperative advertising.

{Tape : 1; Side : A; Approx. Time Counter : 34.2 - 41}

SEN. NELSON requested a brief thumbnail description of the bed tax bills that are out there now. **Mr. Cohn** went over several bills presented in both houses: a house bill that will take \$1 million per year from the bed tax to fund non-reoccurring tourism related events; a senate bill that will continue to take \$400,000 from the bed tax to fund the Heritage Commission; a senate bill that changes distribution, but does not change the total amount in tax, allowing for Big Sky to qualify as a result area to receive funding under the bed tax formula; a couple of senate bill drafts, one of which would raise the bed tax to 9% and rebate the increase to Montanans and give money to a lot of different areas; and a house bill that would increase the bed tax

1% by referendum to raise \$40 million for bonding to address historic infrastructure needs.

{Tape : 1; Side : A; Approx. Time Counter : 40.8 - 48.7}

SEN. CRISMORE stated that many of his constituents feel that the bed tax money is not being spent as it should be and that they do not receive any of it. There is a lot of criticism that the logging and mining industries are hidden from tourism. He suggested that tourists might want to see these industries in action or even the reforestation and reclamation efforts being done.

{Tape : 1; Side : A; Approx. Time Counter : 48.7 - 51.7}

CHAIRMAN HAINES commented that he has also noted that people in the tourism industry seem to be saying that we should become number one at the expense of our industries. We need them both. A lot that is done in our industries has the potential to be of interest to tourists.

{Tape : 1; Side : B; Approx. Time Counter : 0.2 - 3.8}

Mr. Cohn said that his job is to get people here. It is the job of the communities and private industries to promote interest in their specific businesses. Is it the responsibility of the state to promote these programs or of the people interested in that to seize the opportunity? The program can be changed to do that, but there would be other impacts along the way.

CHAIRMAN HAINES said that he did not intend to put them on the defensive, but they do have influence on what is published. It needs to be recognized that industry should have an appropriate part in this.

SEN. CRISMORE also stated that he just wanted to express his thoughts on this and tell the Committee about experiences he has had with people wanting to see these things. He stated that if they had the money to give daily tours of the logging outfits, it could turn into one of the things that tourists would want to do if they came to Libby. There are a lot of people fascinated by this sort of thing.

{Tape : 1; Side : B; Approx. Time Counter : 3.8 - 5.3}

REP. KAUFMANN asked if the wild fires had added interest in the state in terms of people wanting to see the forest regenerate and that sort of thing. **Mr. Cohn** responded that it was of interest to people and beginning next week there would be a section of the website on forest recovery, which would also explain the part of wildfires in nature's cycle.

EXECUTIVE ACTION ON MONTANA PROMOTION DIVISION

{Tape : 1; Side : B; Approx. Time Counter : 3.8 - 43.4}

CHAIRMAN HAINES suggested that they move to the last decision package. **Mr. Younkin** distributed the suggested language for HB 2 **EXHIBIT (jnh33a10)**. He stated that **Becky Graham, Office of Budget and Program Planning (OBPP)**, had worked with a subcommittee on the language and explained that the subcommittee had taken a portion of general fund within the Historical Society and proposed that it be replaced with bed tax revenue. The language reflects this intent.

CHAIRMAN HAINES asked if **Ms. Graham** would like to address the issue. **Ms. Graham** explained that the Education Subcommittee proposed moving \$250,000 from general fund to accommodations tax for the Lewis and Clark bicentennial. When they came out of subcommittee, they decided that they wanted more to be put on the accommodations tax, so the rate is a little higher. It was determined that the Lewis and Clark bicentennial should all be funded with accommodations tax and in the Governor Martz budget, it was half general fund and half accommodations tax. It was then switched again.

CHAIRMAN HAINES summarized that the total sum of money, \$340,000 and \$336,000 has already been appropriated in education. **Ms. Graham** said that it was not appropriated, but is a desired transfer. **CHAIRMAN HAINES** continued that those amounts are already appropriated to Department of Commerce by statute. **Mr. Cohn** stated that the budget office has been working to determine the appropriate amount to be put in out of the Travel Montana budget to cover those costs within the Historical Society. The administration has also been working on SB 263, which will amend the statutory appropriations percentages. The idea is to amend the statute so that the percentage allocations are a little bit different, putting a larger percentage into the historic preservation category. The Travel Montana percentage would be reduced.

CHAIRMAN HAINES asked if they were being asked to make a decision on this debate? Is it intended that this committee should take a vote on this to agree to put more of the Travel Montana budget into this particular area and take general fund out? **Mr. Cohn** said that he suspected that the Committee could do that. It is not directing the Department, but is asking for the Department's cooperation.

There was further discussion of the issue, and **REP. TROPILA** suggested that it is a new proposal and should be restricted and

one time only or it will be in the base next time. **CHAIRMAN HAINES** asked if it was already approved in one committee, what are we doing here? **Ms. Graham** said that it is because it is in section C. **Mr. Younkin** clarified that the money is already appropriated. The intent would be to get the bill written to reflect the percentage as the Legislature wants it funded. The language shows intent only, the money will always be appropriated to the Department of Commerce, which leaves the Historical Society and Department of Commerce to work out the transfer of the funds. The other subcommittee did not appropriate the money, but took general fund away from the Historical Society. Should the Department of Commerce decide down the line that they did not want to transfer the bed tax money, the Historical Society would lose funding for those options. The only thing the Legislature can do in HB 2 is provide this language to state its intent, but that is not substantive law. **Mr. Younkin** further stated that the Committee would not be able to restrict or one time only this appropriation because it is in language. For this to happen again next year, they would have to come back with the same proposal with the same type of language.

CHAIRMAN HAINES asked if it was a DP in the other committee. **Ms. Graham** said that it was and was approved. The DP was originally general fund, but when Governor Martz took office, the DP was moved to accommodations tax. **CHAIRMAN HAINES** said that the money was taken care of, so we really don't have to move this. **Ms. Graham** said that they needed to move it to adopt the language.

SEN. TASH asked if they could approve the language subject to passage and approval of SB 263? **Mr. Cohn** said that he did not think it needed to be done because if SB 263 passes, the language will be taken out through pre-conferencing committee. There was continued discussion.

Mr. Younkin clarified that there has been an increase in bed tax collection to offset the loss of these funds to Travel Montana.

{Tape : 1; Side : B; Approx. Time Counter : 43.4 - 46.1}

Motion: **SEN. TASH** moved **TO ADOPT THE PROPOSED LANGUAGE.**

Discussion: **Ms. Graham** clarified that the Lewis and Clark bicentennial has nothing to do with the Heritage Commission, the Commission is something else.

Vote: Motion **carried unanimously.**

{Tape : 1; Side : B; Approx. Time Counter : 46.1 - 48.4}

Mr. Younkin moved on to the only DP in the Division. The bed tax is statutorily appropriated; however, on page C-207, there is a DP entitled cooperative promotion, which allows the Department to accept private sector money to work cooperative promotional campaigns.

{Tape : 1; Side : B; Approx. Time Counter : 48.4 - 50.3}

Motion: REP. TROPILA moved TO ADOPT DP 521, COOPERATIVE PROMOTION.

Discussion: Mr. Cohn stated that the Department raises private funds for cooperative marketing programs with a variety of different organizations. It is a good private public partnership and extends the advertising dollars, and he hopes the Committee approves it.

Vote: Motion carried unanimously.

HEARING ON ECONOMIC DEVELOPMENT DIVISION

{Tape : 2; Side : A; Approx. Time Counter : 0.2 - 6.6}

Andy Poole, Deputy Director of the Department of Commerce, provided an overview on the Economic Development Division **EXHIBIT(jnh33a11)** and distributed two spreadsheets having to do with the Community Development Block Grant Program (CDBG) and economic development **EXHIBIT(jnh33a12)**. He reviewed the CDBG program.

Mr. Poole then went over the regional development and business recruitment portions of his presentation. The regional development officers work in the local communities throughout Montana on economic development projects. They are involved in many types of projects, primarily loans for expansion of businesses and start up of new businesses. They are involved in business recruitment to try to help communities attract businesses to the state. They also work on CDBG's and other funding mechanisms for putting in infrastructure: sewer, water, housing, and like projects. Part of their job is to know the resources available at state, federal, and local level. These individuals are primarily an information resource for those who want to do economic development.

The special session provided funding for marketing Montana as a location for business. We had always responded to inquiries, but had never marketed Montana. For over ten years, we have spent a significant amount of money marketing Montana for tourism promotion, but not for business recruitment. There is now a

small amount of money to market Montana for business recruitment purposes. One immediate objective was to develop a business image for Montana. They have awarded a contract with Kaufman Advertising in Great Falls, and they are developing a business image for Montana and a website. In the business recruitment arena, states primarily market their products through the internet. They do some marketing in trade magazines, but one of the primary objectives is to develop a business recruitment website. When companies look at states in which to locate, they do much of the research on-line.

{Tape : 2; Side : A; Approx. Time Counter : 6.6 - 8.5}

Mr. Poole distributed an inquiry form received from a business not long ago **EXHIBIT(jnh33a13)**. It provides some of the kinds of information that are requested from companies that may wish to locate here.

{Tape : 2; Side : A; Approx. Time Counter : 8.5 - 10.1}

CHAIRMAN HAINES asked how they know that businesses do their research on the internet. **Mr. Poole** responded that they receive a number of monthly trade magazines, which do surveys on the types of incentives and opportunities that businesses are seeking in states, and one of the issues is where do companies look and what is their first research tool. Consistently, over the last four or five years, the internet has become the primary resource for businesses in their research for information on areas to locate.

{Tape : 2; Side : A; Approx. Time Counter : 10.1 - 11.6}

SEN. TASH asked if there are international inquiries. **Mr. Poole** replied that they have offices in Kumamoto, Japan, and Taipei, Taiwan, and through those two offices, they occasionally receive information from an Asian company that is perhaps looking to expand into North America.

{Tape : 2; Side : A; Approx. Time Counter : 11.6 - 15.9}

Mr. Poole stated that the special session also provided funding for the Montana Certified Communities, which has existed in state statute and has been operated in the Department of Commerce without any funding over the last ten year period. The funding is intended to provide grants for local economic development organizations to help them maximize some of their local economic development funds. They have developed websites with some of the money received. He reviewed the requirements that communities must complete in order to be designated a Montana Certified Community and distributed a spreadsheet showing communities that have been certified **EXHIBIT(jnh33a14)**. He then explained that the Department gives those who have been certified a minimum of

\$5,000 and a maximum of \$25,000; it is an allocation of \$.50 per capita, but since there is not enough money to provide \$.50 per capita to the entire state, there is a minimum and maximum on it.

{Tape : 2; Side : A; Approx. Time Counter : 15.9 - 22.5}

Mr. Poole reviewed information on trade and international relations. The Division provides information to companies on how to export and helps with: technical assistance to Montana companies wishing to export products; trade shows; overseas offices; protocol; and foreign exchange programs. He went over the Made-in-Montana trade program, and the opportunities that have arisen as a result of this program.

{Tape : 2; Side : A; Approx. Time Counter : 22.5 - 31}

He proceeded to the micro-business finance program, which provides debt financing and technical assistance to start-up businesses that cannot access bank debt because they have no proven track record or sufficient collateral. They are willing to provide this funding since expansions and start-ups are the greatest source of new employment in the state. He reviewed the particulars regarding the amounts loaned, gross revenue, loans paid and repaid in full, and the average loan size.

Mr. Poole responded to a question from **SEN. TASH**, that the default rate over the life of the program is a little over 7%. While it may seem high, within the private banking community in Montana and dependent upon the economy, the default rate is somewhere between 3% and 5%. He then reviewed the financial condition of all of the Micro Business Development Centers (MBDC) and explained that the state funding that went into the MBDC came from two different appropriations out of the state coal tax trust fund. There has been some concern expressed in the Legislature that the money appropriated from the coal tax trust fund is at risk. He reviewed the information on page 12 of **EXHIBIT (11)** and stated that, at this point in time, the funds invested by the state are clearly not at risk.

{Tape : 2; Side : A; Approx. Time Counter : 31 - 37.9}

Mr. Poole proceeded to the Small Business Development Center (SBDC) program, which is primarily funded by the federal government through the Small Business Administration (SBA). He reviewed the function of the program, which helps very small businesses learn about what it takes to run a small business. He reviewed the specifics of the program as far as money expended and project value, number of clients served, counseling, workshops, and detailed the NxLevel training program.

{Tape : 2; Side : A; Approx. Time Counter : 37.9 - 43.9}

Mr. Poole then reviewed the Montana Small Business Information Research (SBIR) initiative, in which technical assistance is provided to small Montana companies in accessing federal research and development money.

{Tape : 2; Side : A; Approx. Time Counter : 43.9 - 48.9}

The final program on which **Mr. Poole** spoke was the Census and Economic Information Center (CEIC), which provides demographic, economic, and business information, as well as statistical reports. There is also a library, geographic/GIS data and services, and census coordination activities. A wealth of census information for the state, communities, and counties is located on the CEIC website, and he encourage Committee members to visit the site.

EXECUTIVE ACTION ON ECONOMIC DEVELOPMENT DIVISION

{Tape : 2; Side : A; Approx. Time Counter : 48.9 - 51.5}

There was discussion on LC 941, which would take the regulatory part of the Department of Commerce and place it elsewhere and would also take business recruitment out of the Economic Development Division and place it in the Governor's office under the Office of Economic Development.

{Tape : 2; Side : B; Approx. Time Counter : 0.3 - 15.5}

Mr. Poole went over the strategic reasons for moving that function to the Governor's office. In response to a question from **CHAIRMAN HAINES** regarding the niche market being companies requiring 200 employees, **Mr. Poole** said that Montana's best opportunity for recruiting companies to Montana are those companies already in the Rocky Mountain West. There is a certain limit to how big a company many Montana communities can accommodate.

Responding to **SEN. TASH**, **Mr. Poole** stated that the natural resource industries will move to Montana because we have a natural resource that they are looking for: platinum, natural gas, and lumber. Another niche market is quality of life companies. One of our best natural resources, which is key to recruiting companies, is our well-educated, dedicated workforce.

REP. KAUFMANN mentioned the waivers on fees and charges related to water, utilities, permits, and property taxes that companies expect when they locate here, and asked if there is a way that the public can get this information in order to evaluate whether it is worth 400 \$8 an hour jobs. **Mr. Poole** said this activity is scrutinized carefully. What a company is willing to do is maybe

half of what they are requesting. There are public hearings, and locally all of this is subject to close scrutiny, and if there is a good package, it comes down to a cost benefit analysis. There was discussion regarding a bill that **REP. KAUFMANN** has carried.

{Tape : 2; Side : B; Approx. Time Counter : 15.5 - 22.6}

Mr. Yunkin referred to DP 23 in the budget analysis page C-201; this would provide funding for a .50 FTE library technician position and installation of library cataloging and circulation software, and links to the Montana Library Network. **Mr. Poole** said that the Department requested that this DP not be funded.

Mr. Yunkin went over DP 43, which concerns economic development administrative costs and an increase for contracted services for conducting at least two revolving loan fund training sessions and for the local Microbusiness Finance Program and the MBDC staff. This was the subject of a Legislative Audit finding, and there is LFD comment on the bottom of C-202. **Mr. Poole** said that the audit finding concluded that more training needed to be provided locally to Microbusiness Development Center staff; it is not a general fund issue, but is state special revenue.

{Tape : 2; Side : B; Approx. Time Counter : 22.6 - 25.6}

CHAIRMAN HAINES asked what would happen if general fund were removed. **Mr. Poole** responded that the general fund pays for activities that need to be done in order to conduct business, and he mentioned that he is also going to ask that they not receive funding for DP 7, but he would rather have the funding for current operations.

{Tape : 2; Side : B; Approx. Time Counter : 25.6 - 28.1}

Motion: **REP. TROPILA** moved TO ADOPT DP 43, ECONOMIC DEVELOPMENT ADMINISTRATIVE COSTS.

Discussion: **Mr. Yunkin** clarified that of the \$29,000 in FY02, \$10,000 is for the one time only server replacement cost allocated in each division. When you get to the Central Management Division is discussed, should the Committee decide to pull that out, it will not transfer into the base. The recurring charges are, in effect, approximately \$18,000 per year.

Vote: Motion carried 5-0 with **SEN. NELSON** not present for the vote.

{Tape : 2; Side : B; Approx. Time Counter : 28.1 - 45.9}

Mr. Yunkin proceeded to explain DP 512, which is a CDBG program for an increase in federal grants. **Mr. Poole** commented that the

\$2.5 million is the authority for the item, which is received every year. **REP. KAUFMANN** asked if the money from the federal government requires a match. **Mr. Poole** responded that it requires a one to one match.

Motion: **SEN. CRISMORE** moved TO ADOPT DP 512, CDBG FEDERAL GRANTS.

Discussion: **Mr. Poole** explained to **CHAIRMAN HAINES**, that this is the amount of money received every year, and the reason that they did not spend the \$2.5 million was because of the timing of the money flowing out. They have received this amount for several years running. **CHAIRMAN HAINES** asked if they had ever reached the \$2.5 million. **Mr. Poole** replied that he had requested a supplemental three years ago because the timing was such that they needed almost \$5 million because of the way the money was flowing out. In that case, they needed a supplemental because they had spent twice as much as \$2.5 million. The base has continued to be \$2.5 million every session.

Mr. Younkin clarified that the intent of the Department is to only have the authority to spend the \$2.5 million each year of the biennium. In the case of the supplemental, depending on the year it happened, if the expenditure had happened in the year 2000, the office would ask for a decrease to take them back to the \$2.5 million. Since the base year FY00, had only \$1.5 million in spending, they are asking for the increase to give them the authority to spend up to \$2.5 million. It will not add on to the base each year, but will carry over.

Vote: Motion **carried unanimously.**

The Department withdrew DP 7.

REP. KAUFMANN commented on the general concern she has about the use of public funds to stimulate economic development.

ADJOURNMENT

Adjournment: 11:15 A.M.

REP. DICK HAINES, Chairman

SYDNEY TABER, Transcription Secretary

DH/ST

EXHIBIT (jnh33aad)